Ray Nkonyeni Municipality
Annual Financial statements
for the year ended 30 June 2018

Auditor General of South Africa

General Information

Nature of business and principal activities	Local Municipality
Executive committee	
	Cllr N C P Mqwebu (Mayor)
	Cllr Y Nair (Deputy Mayor)
	Cllr D P Njoko (Speaker)
	Cllr Z G Maphumulo (Chief Whip)
	Cllr M Lubanyana
	Cllr H C Boyland
	Cllr S A Dlamalala
	Cllr M A Mpisi
	Cllr V L Ntanza
	Cllr W S Ndwalane
	Cllr D Rawlins
	Cllr J S Ngwane
Grading of local authority	4
Accounting Officer	Mr S M Mbili
Chief Finance Officer (CFO)	Ms N Gqola
Registered office	Civic Centre 10 Connor Street Port Shepstone 4240
Business address	Civic Centre 10 Connor Street Port Shepstone 4240
Bankers	Nedbank; ABSA; Standard Bank First National Bank; Investec
Auditors	Auditor General of South Africa
Preparer	The financial statements were externally compiled by: Dynamic Dashing Solutions (Pty) Ltd

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the community and state funding for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The annual financial statements set out on pages 4 to 72, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

Mr S.M Mbili
Accounting Officer

The accounting officer submits his report for the year ended 30 June 2018.

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	3	4,531,658	3,296,773
Sundry debtors		39,886,055	36,984,226
Receivables from non-exchange transactions	10	172,097,154	150,435,939
Receivables from exchange transactions	11	57,174,042	48,501,881
VAT receivable	44	19,439,127	6,393,300
Loan receivable	9	679,653	679,653
Cash and cash equivalents	12	95,257,363	93,557,089
		389,065,052	**339,848,861**
Non-Current Assets			
Investment property	4	186,692,600	235,787,696
Property,plant and equipment	5	1,471,096,458	1,477,264,565
Intangible assets	6	198,358	354,409
Heritage assets	7	1,636,953	1,636,953
Loan receivable	9	6,654,573	7,157,481
		1,666,278,942	**1,722,201,104**
Total Assets		**2,055,343,994**	**2,062,049,965**
Liabilities			
Current Liabilities			
Long-term loans	13	9,994,693	10,122,005
Payables from exchange transactions	16	161,457,312	135,781,738
Consumer deposits	17	26,872,671	23,246,860
Employee benefit obligation	8	4,079,000	3,986,000
Unspent conditional grants and receipts	45	24,615,319	26,475,236
Landfill site provision	14	35,092,681	34,169,042
Long-service awards	15	2,306,000	1,351,000
		264,417,676	**235,131,881**
Non-Current Liabilities			
Long-term loans	13	11,164,333	18,318,869
Employee benefit obligation	8	92,955,000	90,683,000
Long-service awards	15	16,183,000	15,230,000
		120,302,333	**124,231,869**
Total Liabilities		**384,720,009**	**359,363,750**
Net Assets		**1,670,623,985**	**1,702,686,215**
Reserves			
Revaluation reserve		-	105,829,621
Accumulated surplus		1,670,623,981	1,596,856,594
Total Net Assets		**1,670,623,981**	**1,702,686,215**

* See Note 51

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	158,139,890	147,571,036
Rental of facilities and equipment		2,721,385	2,790,649
Interest received (trading)		16,987,616	11,497,908
Agency services		3,428,636	4,817,111
Licences and permits		5,093,118	3,822,999
Other income	19	29,469,901	35,106,074
Interest received - investment	20	3,838,229	5,251,457
Total revenue from exchange transactions		**219,678,775**	**210,857,234**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	385,725,580	316,005,575
Property rates - penalties imposed	21	-	111,485
Transfer revenue			
Government grants & subsidies	22	285,818,797	259,801,648
Fines, Penalties and Forfeits		8,047,769	83,939,474
Housing revenue		39,767,250	12,476,089
Total revenue from non-exchange transactions		**719,359,396**	**672,334,271**
Total revenue		**939,038,171**	**883,191,505**
Expenditure			
Employee related costs	23	(356,703,992)	(317,847,086)
Remuneration of councillors	24	(25,954,038)	(22,043,919)
Depreciation and amortisation	25	(85,578,632)	(68,473,089)
Impairment loss/ Reversal of impairments	26	(3,617,029)	(1,765,413)
Finance costs	48	(14,707,893)	(13,092,629)
Lease rentals on operating lease	46	(37,622,296)	(23,005,882)
Debt Impairment	27	(22,383,028)	(129,509,601)
Bulk purchases	28	(87,168,139)	(75,593,791)
Contracted services	29	(136,900,828)	(119,014,765)
Transfers and Subsidies		(5,003,928)	(4,603,654)
General Expenses	30	(152,364,399)	(142,539,874)
Total expenditure		**(928,004,202)**	**(917,489,703)**
Operating surplus (deficit)		**11,033,969**	**(34,298,198)**
Fair value adjustments	49	(49,095,096)	-
Actuarial gains/losses	8	6,267,018	6,471,750
		(42,828,078)	**6,471,750**
Deficit for the year		**(31,794,109)**	**(27,826,448)**

* See Note 51

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Take-on balance as at 10 August 2016	**8,787,212**	**1,375,262,163**	**1,384,049,375**
Changes in net assets			
Net income (losses) recognised directly in net assets	-	-	-
Surplus for the year	-	(19,524,334)	(19,524,334)
Total recognised income and expenses for the year	-	(19,524,334)	(19,524,334)
Revaluation movement	97,042,409	-	97,042,409
Total changes	97,042,409	(19,524,334)	77,518,075
Opening balance as previously reported	105,829,621	1,355,737,829	1,461,567,450
Adjustments			
Correction of errors and change in accounting policy	-	241,118,764	241,118,764
Restated* Balance at 30 June 2017	**105,829,621**	**1,596,856,594**	**1,702,686,215**
Changes in net assets			
Transfer to accumulated surplus	(105,829,621)	105,829,621	-
Adjustments to Debtors	-	(268,125)	(268,125)
Net income (losses) recognised directly in net assets	(105,829,621)	105,561,496	(268,125)
Surplus for the year	-	(31,794,109)	(31,794,109)
Total recognised income and expenses for the year	(105,829,621)	73,767,387	(32,062,234)
Total changes	(105,829,621)	73,767,387	(32,062,234)
Balance at 30 June 2018	**-**	**1,670,623,981**	**1,670,623,981**

* See Note 51

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Taxation		411,879,384	262,096,684
Grants		285,818,797	259,801,648
Interest income		20,825,845	16,749,365
Service charges		145,266,120	59,285,254
Other receipts		29,469,901	35,106,074
		893,260,047	633,039,025
Payments			
Employee costs		(382,658,030)	(339,891,005)
Suppliers		(398,470,614)	(181,349,606)
Finance costs		(14,707,893)	(13,092,629)
		(795,836,537)	(534,333,240)
Net cash flows from operating activities	32	**97,423,510**	**98,705,785**
Cash flows from investing activities			
Purchase of property,plant and equipment	5	(79,736,262)	(103,914,409)
Purchase of other intangible assets	6	-	(6,050)
Net cash flows from investing activities		**(79,736,262)**	**(103,920,459)**
Cash flows from financing activities			
Repayment of long-term loans		(10,345,992)	(10,661,144)
Long-service awards payout		(1,744,474)	(2,103,000)
Employee benefits payout		(3,896,508)	(3,151,000)
Take-on Cash balance		-	114,686,907
Net cash flows from financing activities		**(15,986,974)**	**98,771,763**
Net increase/(decrease) in cash and cash equivalents		**1,700,274**	**93,557,089**
Cash and cash equivalents at the beginning of the year		93,557,089	-
Cash and cash equivalents at the end of the year	12	**95,257,363**	**93,557,089**

* See Note 51

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	166,659,000	1,072,000	**167,731,000**	158,139,890	**(9,591,110)**	note 52
Rental of facilities and equipment	3,266,000	-	**3,266,000**	2,721,385	**(544,615)**	note 52
Interest received (trading)	10,235,000	-	**10,235,000**	16,987,616	**6,752,616**	note 52
Agency services	30,000	4,070,000	**4,100,000**	3,428,636	**(671,364)**	note 52
Licences and permits	13,279,000	-	**13,279,000**	5,093,118	**(8,185,882)**	note 52
Other income	40,434,000	-	**40,434,000**	29,469,901	**(10,964,099)**	note 52
Interest received - investment	3,400,000	-	**3,400,000**	3,838,229	**438,229**	note 52
Total revenue from exchange transactions	**237,303,000**	**5,142,000**	**242,445,000**	**219,678,775**	**(22,766,225)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	358,959,000	(1,514,000)	**357,445,000**	385,725,580	**28,280,580**	note 52
Transfer revenue						
Government grants & subsidies	217,740,000	12,316,000	**230,056,000**	285,818,797	**55,762,797**	note 52
Fines, Penalties and Forfeits	16,016,000	-	**16,016,000**	8,047,769	**(7,968,231)**	note 52
Housing revenue	-	-	**-**	39,767,250	**39,767,250**	note 52
Total revenue from non-exchange transactions	**592,715,000**	**10,802,000**	**603,517,000**	**719,359,396**	**115,842,396**	
Total revenue	**830,018,000**	**15,944,000**	**845,962,000**	**939,038,171**	**93,076,171**	
Expenditure						
Personnel	(384,258,000)	(23,031,865)	**(407,289,865)**	(356,703,992)	**50,585,873**	note 52
Remuneration of councillors	(26,255,000)	(2,641,000)	**(28,896,000)**	(25,954,038)	**2,941,962**	note 52
Depreciation and amortisation	(70,658,000)	-	**(70,658,000)**	(85,578,632)	**(14,920,632)**	note 52
Impairment loss/ Reversal of impairments	-	-	**-**	(3,617,029)	**(3,617,029)**	
Finance costs	(4,286,000)	-	**(4,286,000)**	(14,707,893)	**(10,421,893)**	note 52
Lease rentals on operating lease	-	-	**-**	(37,622,296)	**(37,622,296)**	
Debt Impairment	(3,200,000)	(42,131,772)	**(45,331,772)**	(22,383,028)	**22,948,744**	note 52
Bulk purchases	(80,712,000)	(8,800,000)	**(89,512,000)**	(87,168,139)	**2,343,861**	note 52
Contracted Services	(50,412,000)	(103,627,422)	**(154,039,422)**	(136,900,828)	**17,138,594**	note 52
Transfers and Subsidies	(9,945,000)	5,110,000	**(4,835,000)**	(5,003,928)	**(168,928)**	note 52
General Expenses	(298,921,000)	37,071,817	**(261,849,183)**	(152,364,399)	**109,484,784**	note 52
Total expenditure	**(928,647,000)**	**(138,050,242)**	**(1,066,697,242)**	**(928,004,202)**	**138,693,040**	
Operating surplus	**(98,629,000)**	**(122,106,242)**	**(220,735,242)**	**11,033,969**	**231,769,211**	
Fair value adjustments	-	-	**-**	(49,095,096)	**(49,095,096)**	note 52
Actuarial gains/losses	-	-	**-**	6,267,018	**6,267,018**	note 52
	-	**-**	**-**	**(42,828,078)**	**(42,828,078)**	
Deficit before taxation	**(98,629,000)**	**(122,106,242)**	**(220,735,242)**	**(31,794,109)**	**188,941,133**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(98,629,000)**	**(122,106,242)**	**(220,735,242)**	**(31,794,109)**	**188,941,133**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Impairment testing

Financial assets:

The accounting policy on financial instruments describes the process followed to determine the value by which financial assets should be impaired. In making the estimation, management of the municipality consider the detailed criteria of impairment of assets as set out in GRAP : Financial Instruments.

Useful lives and impairment of Property, Plant and Equipment (PPE) and Intangible assets with indefinite useful lives:

As described in the accounting policy disclosure relating to PPE and intangible assets, the municipality depreciates/amortises its PPE and intangible assets over their estimated useful lives, taking into account the residual values. The useful lives and residual values of assets are based on industry knowledge.

The municipality reviews and tests the carrying values of assets when events or changes in circumstances suggest that the carrying amount of these assets may not be recoverable.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in the notes to the financial statements.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

Accounting Policies

1.4 Investment property (continued)

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.5 Property,plant and equipment

Property,plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property,plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property,plant and equipment is initially measured at cost.

The cost of an item of property,plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property,plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property,plant and equipment have different useful lives, they are accounted for as separate items (major components) of property,plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property,plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property,plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property,plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Accounting Policies

1.5 Property,plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property,plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property,plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property,plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property,plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property,plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property,plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	10-30 years
Infrastructure		
• Roads and paving	Straight line	5-30 years
• Electricity	Straight line	10-30 years
• Solid waste and disposal	Straight line	10-30 years
Community		
• Recreational facilities	Straight line	20-30 years
• Buildings and other structures	Straight line	20-30 years
• Improvements	Straight line	20-30 years
Other property, plant and equipment		
• Bins and containers	Straight line	5-10 years
• Computers and office equipment	Straight line	4-5 years
• Furniture and fittings	Straight line	5-10 years

Each part of an item of property,plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The gain or loss arising from the derecognition of an item of property,plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property,plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

Accounting Policies

1.6 Intangible assets (continued)

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	5 years

Accounting Policies

1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

Accounting Policies

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long term loan	Financial asset measured at amortised cost
Receivables from consumers	Financial asset measured at amortised cost
Short term investment deposits	Financial asset measured at amortised cost
Bank and cash	Financial asset measured at cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long term loans	Financial liability measured at amortised cost
Creditors	Financial liability measured at amortised cost

The entity has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

Accounting Policies

1.8 Financial instruments (continued)

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

1.8 Financial instruments (continued)

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

Accounting Policies

1.8 Financial instruments (continued)

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Tax

Value Added Taxation

The municipality is registered with SARS for VAT on the cash basis in accordance with Section 15(2)(a) of the Value Added Tax Act, No. 81 of 1991.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.10 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories , arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term “contractor” thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Accounting Policies

1.12 Construction contracts and receivables (continued)

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

1.14 Impairment of non-cash-generating assets (continued)

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.15 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.16 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Accounting Policies

1.16 Employee benefits (continued)

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity’s own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity’s informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity’s informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

1.16 Employee benefits (continued)

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan’s benefit formula. However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

1.16 Employee benefits (continued)

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.17 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting Policies

1.17 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

The municipality treats its provision for leave pay and bonuses as accruals. The cost of all short-term employee benefits, such as the above mentioned are recognised in the period in which the employee renders the related services.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

1.18 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.19 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.20 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

1.20 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

Property rates

The municipality recognises property rates in terms of the Municipal Property Rates Act and the municipal rates policy.

The municipality recognises property rates when the taxable event occurs and the asset recognition criteria met. The taxable event for property taxes is the passing of the date on which the tax is levied.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Government grants

Grants received, or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is not a corresponding liability in respect of the related conditions.

Where there are conditions attached to a grant or transfer that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met.

Grants wihout any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equaling the fair value of the asset received.

1.21 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.22 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.23 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.24 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted,expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003).

Accounting Policies

1.24 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.26 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.27 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.28 Budget information

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01-Jul-17 to 30-Jun-18.

Accounting Policies

1.28 Budget information (continued)

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

1.30 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 1 July 2018 or later periods:

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 37: Joint Arrangements

2. New standards and interpretations (continued)

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 110 (as amended 2016): Living and Non-living Resources

Amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the amendment is for years beginning on or after 1 April 2020.

The municipality expects to adopt the amendment for the first time in the 2020 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

3. Inventories

Consumable stores	4,507,266	3,272,381
Housing selling stock	24,392	24,392
	4,531,658	**3,296,773**

4. Investment property

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	186,692,600	-	186,692,600	235,787,696	-	235,787,696

Reconciliation of investment property - 2018

	Opening balance	**Fair value adjustments**	**Total**
Investment property	235,787,696	(49,095,096)	186,692,600

Reconciliation of investment property - 2017

	Opening balance	**Take-on balance**	**Total**
Investment property	-	235,787,696	235,787,696

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Property,plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	69,785,042	-	69,785,042	69,785,042	-	69,785,042
Buildings	907,102,809	(405,520,398)	501,582,411	866,004,595	(383,291,835)	482,712,760
Machinery and equipment	31,839,603	(26,726,467)	5,113,136	31,072,478	(24,209,270)	6,863,208
Furniture and fixtures	29,558,519	(25,945,133)	3,613,386	29,336,574	(24,660,256)	4,676,318
Motor vehicles	44,943,186	(33,376,647)	11,566,539	46,397,521	(31,665,860)	14,731,661
Office equipment	22,693,735	(18,180,387)	4,513,348	21,218,375	(15,738,598)	5,479,777
Infrastructure	1,897,182,848	(1,022,841,653)	874,341,195	1,861,307,312	(968,856,939)	892,450,373
Bins and containers	1,534,655	(953,254)	581,401	1,537,196	(971,770)	565,426
Security measures	-	-	-	527,124	(527,124)	-
Total	**3,004,640,397**	**(1,533,543,939)**	**1,471,096,458**	**2,927,186,217**	**(1,449,921,652)**	**1,477,264,565**

5. Property,plant and equipment (continued)

Reconciliation of property,plant and equipment - 2018

	Opening balance	Additions	Capital under construction additions	Capital under construction transfer to completed	Donations	Disposals	Depreciation	Impairment loss	Total
Land	69,785,042	-	-	-	-	-	-	-	69,785,042
Buildings	482,712,759	74,619,055	41,532,138	(75,052,979)	-	-	(22,228,561)	-	501,582,412
Machinery and equipment	6,863,208	767,125	-	-	-	-	(2,517,198)	-	5,113,135
Furniture and fixtures	4,676,318	279,361	-	-	401,231	-	(1,363,116)	(380,407)	3,613,387
Motor vehicles	14,731,661	-	-	-	-	-	(3,106,863)	(58,260)	11,566,538
Office equipment	5,479,777	759,062	-	-	189,174	-	(1,914,665)	-	4,513,348
Infrastructure	892,450,373	40,081,353	38,446,023	(42,418,736)	-	(36,358)	(54,181,460)	-	874,341,195
Bins and containers	565,426	133,455	-	-	-	-	(109,951)	(7,529)	581,401
	1,477,264,564	**116,639,411**	**79,978,161**	**(117,471,715)**	**590,405**	**(36,358)**	**(85,421,814)**	**(446,196)**	**1,471,096,458**

Reconciliation of property,plant and equipment - 2017

	Restated opening balance	Additions	Capital under construction additions	Capital under construction transfer to completed	Depreciation	Impairment loss	Total
Land	69,785,042	-	-	-	-	-	69,785,042
Buildings	452,447,644	44,051,471	56,321,580	(52,185,687)	(17,922,250)	-	482,712,758
Machinery and equipment	8,308,108	655,609	-	-	(2,043,078)	(57,430)	6,863,209
Furniture and fixtures	5,737,049	619,768	-	-	(1,568,628)	(111,871)	4,676,318
Motor vehicles	16,939,538	1,719,928	-	-	(3,429,464)	(498,340)	14,731,662
Office equipment	5,630,799	1,599,520	-	-	(1,452,857)	(297,685)	5,479,777
Infrastructure	890,045,209	47,886,290	50,357,438	(47,283,400)	(47,815,862)	(739,302)	892,450,373
Bins and containers	496,919	171,892	-	-	(103,385)	-	565,426
	1,449,390,308	**96,704,478**	**106,679,018**	**(99,469,087)**	**(74,335,524)**	**(1,704,628)**	**1,477,264,565**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Property,plant and equipment (continued)

Pledged as security

No property,plant and equipment were pledged as security:

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

6. Intangible assets

	2018			2017		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer Software	2,567,318	(2,368,960)	198,358	2,567,318	(2,212,909)	354,409

Reconciliation of intangible assets - 2018

	Opening balance	**Amortisation**	**Total**
Computer software	354,409	(156,051)	198,358

Reconciliation of intangible assets - 2017

	Opening balance	**Additions**	**Additions through transfer of functions / mergers**	**Amortisation**	**Impairment loss**	**Total**
Computer software	-	6,050	581,972	(165,372)	(68,241)	354,409

7. Heritage assets

	2018			2017		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
National monuments	1,874,617	(237,664)	1,636,953	1,874,617	(237,664)	1,636,953

Reconciliation of heritage assets 2018

	Opening balance	**Total**
National monuments	1,636,953	1,636,953

Reconciliation of heritage assets 2017

	Opening balance	**Additions through transfer of functions / mergers**	**Impairment losses recognised**	**Total**

Notes to the Annual Financial Statements

Figures in Rand			2018	2017

7. Heritage assets (continued)

National monuments	-	1,654,953	(18,000)	1,636,953

8. Employee benefit obligations

Defined benefit plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid fund which is associated with the municipality, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund upon retirement. In such cases, the municipality is liable for a portion of the medical aid membership fee. The most recent actuarial valuations were carried out at 30 June 2018 by One Pangae Financial, Fellow of the Faculty of Actuaries and Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the Projected Unit Credit Method.

The amounts recognised in the statement of financial position are as follows:

	2018	2017
Carrying value		
Present value of the defined benefit obligation	(94,669,000)	(91,070,000)
Current service cost	(4,066,000)	(4,486,000)
Interest cost	(9,360,000)	(8,685,000)
Contributions paid	3,896,508	3,151,000
Actuarial gain/loss	7,164,492	6,421,000
	(97,034,000)	**(94,669,000)**
Non-current liabilities	(92,955,000)	(90,683,000)
Current liabilities	(4,079,000)	(3,986,000)
	(97,034,000)	**(94,669,000)**

Net expense recognised in the statement of financial performance

	2018	2017
Current service cost	4,066,000	4,486,000
Interest cost	9,360,000	8,685,000
Actuarial (gains) losses	(7,075,000)	(6,421,000)
	6,351,000	**6,750,000**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

8. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.86 %	10.10 %
Consumer price inflation	6.14 %	6.86 %
Health care cost inflation	7.64 %	8.36 %
Net discount rate	2.06 %	1.61 %

Age and mortality	**Years**	**Years**
Normal retirement age	63	63
Fully accrued age	60	60
Mortality	85 - 90	85 - 90

Members of the Post Employment Medical Subsidy	**No. of people**	**No. of people**
Active employees	575	587
Continuation pensioners	99	97
	674	**684**

The liabilities in respect of past service has been estimated as follows:	**2018**	**2017**
Active employees	46,631,000	46,775,000
Continuation pensioners	50,403,000	47,894,000
	97,034,000	**94,669,000**

9. Loan receivable

At amortised cost: Ugu District Municipality

The loan receivable represents a portion of a loan from Development Bank Of South Africa (DBSA) that was paid by Hibiscus Coast Municipality on behalf of Ugu District Municipality. The loan arose due to a transfer of powers and functions. Installments on the loan are payable in December and June each year.The municipality recognises interest income on the portion of the loan repayable by Ugu District Municipality at variable interest rate.

Long-term debtors	**2018**	**2017**
Non-current assets	6,654,573	7,157,481
Current assets	679,653	679,653
	7,334,226	**7,837,134**

10. Receivables from non-exchange transactions

Fines	38,366,773	45,386,347
Consumer debtors - Other receivables	605,358	661,564
Consumer debtors - Rates	133,125,023	102,329,910
Consumer debtors - Penalties	-	2,058,118
	172,097,154	**150,435,939**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

10. Receivables from non-exchange transactions (continued)

Reconciliation of receivables from non-exchange transactions

Gross balances		
Fines	265,915,141	272,934,715
Consumer debtors - Other receivables	652,786	822,423
Consumer debtors - Rates	133,125,023	102,329,910
Consumer debtors - Penalties	-	3,436,514
	399,692,950	**379,523,562**
Less: Allowance for impairment		
Fines	(227,548,368)	(227,548,368)
Consumer debtors - Other receivables	(47,428)	(160,859)
Consumer debtors - Rates	-	-
Consumer debtors - Penalties	-	(1,378,396)
	(227,595,796)	**(229,087,623)**
Net balance		
Fines	38,366,773	45,386,347
Consumer debtors - Other receivables	605,358	661,564
Consumer debtors - Rates	133,125,023	102,329,910
Consumer debtors - Penalties	-	2,058,118
	172,097,154	**150,435,939**
Other receivables		
31-60 days	75,441	-
61-90 days	58,814	25,497
91-120 days	48,399	16,852
121-365 days	250,976	67,712
> 365 days	171,728	551,503
	605,358	**661,564**
Rates		
Current (0 -30 days)	164,318	428,811
31-60 days	9,015,622	184,152
61-60 days	7,008,456	6,501,812
91-120 days	6,077,924	5,111,994
121-365 days	37,194,824	26,253,476
> 365 days	73,663,879	63,849,665
	133,125,023	**102,329,910**
Penalties		
> 365 days	-	2,058,118

Reconciliation of allowance for impairment - Fines

Balance at beginning of the year	(227,548,368)	(106,124,711)
Contributions to allowance	-	(121,423,657)
	(227,548,368)	**(227,548,368)**

Reconciliation of allowance for impairment - Consumer debtors

Balance at beginning of the year	(1,539,255)	(1,361,532)
Contributions to allowance	1,491,827	(177,723)

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

10. Receivables from non-exchange transactions (continued)

	(47,428)	**(1,539,255)**

11. Receivables from exchange transactions

Gross balances		
Electricity	15,524,662	14,760,814
Legal fees	4,141,081	4,452,519
Interest	41,348,215	32,755,076
Refuse	22,486,903	17,406,403
Other	13,352,401	11,851,172
	96,853,262	**81,225,984**

Less: Allowance for impairment		
Electricity	(1,859,012)	(1,180,420)
Legal fees	(2,085,968)	(2,203,514)
Interest	(18,522,719)	(14,896,052)
Refuse	(10,900,540)	(8,547,166)
Other	(6,310,981)	(5,896,951)
	(39,679,220)	**(32,724,103)**

Net balance		
Electricity	13,665,650	13,580,394
Legal fees	2,055,113	2,249,005
Interest	22,825,496	17,859,024
Refuse	11,586,363	8,859,237
Other-exchange	7,041,420	5,954,221
	57,174,042	**48,501,881**

Electricity		
Current (0 -30 days)	10,456,065	8,790,626
31 - 60 days	436,738	2,066,922
61 - 90 days	291,527	299,622
91 - 120 days	215,374	166,817
121 - 365 days	840,594	798,357
> 365 days	1,425,352	1,458,050
	13,665,650	**13,580,394**

Legal fees		
Current (0 -30 days)	53,763	75,592
31 - 60 days	3,550	50,936
61 - 90 days	2,211	51
91 - 120 days	-	5,775
121 - 365 days	37,761	153,233
> 365 days	1,957,828	1,963,418
	2,055,113	**2,249,005**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

11. Receivables from exchange transactions (continued)

Interest		
Current (0 -30 days)	1,611,504	596,026
31 - 60 days	758,073	580,202
61 - 90 days	724,387	559,343
91 - 120 days	691,752	532,443
121 - 365 days	3,975,543	3,177,779
> 365 days	15,064,237	12,413,231
	22,825,496	**17,859,024**

Refuse		
Current (0 -30 days)	4,517	6,850
31 - 60 days	689,002	3,530
61 - 90 days	551,613	527,992
91 - 120 days	487,812	428,610
121 - 365 days	3,282,718	2,256,438
> 365 days	6,570,701	5,635,817
	11,586,363	**8,859,237**

Other-exchange		
Current (0 -30 days)	2,069,453	1,008,409
31 - 60 days	224,208	275,808
61 - 90 days	186,090	197,169
91 - 120 days	166,715	214,621
121 - 365 days	1,213,127	1,259,317
> 365 days	3,181,827	2,998,897
	7,041,420	**5,954,221**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(32,724,103)	(28,100,341)
Contributions to allowance	(6,955,117)	(4,623,762)
	(39,679,220)	**(32,724,103)**

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	42,301	41,301
Short-term deposits	87,506,942	73,232,568
Bank balances	7,708,120	20,283,220
	95,257,363	**93,557,089**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

12. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	**30 June 2017**	**30 June 2016**	**30 June 2018**	**30 June 2017**	**30 June 2016**
Nedbank - Primary account - 1020541857	-	16,183,123	-	-	16,183,123	-
FNB - Primary account- 62723734134	7,639,873	-	-	7,639,873	-	-
First National Bank- Primary account - 60224943153	-	4,079,635	-	-	4,079,635	-
Nedbank Petty Cash - 1020870974	-	8,054	-	-	8,054	-
Nedbank salaries account - 1039887279	-	16,960	-	-	16,960	-
First National Bank - Salaries - 62730321007	68,034	-	-	68,034	-	-
ABSA Bank- Lousiana HSG- 9102815623	8,384,958	8,404,311	-	8,384,958	8,404,311	-
ABSA Bank- Nzimakwe 1 HSG - 9149474529	539,992	541,232	-	539,992	541,232	-
ABSA Bank- Nzimakwe 2 HSG- 9149474927	896,491	898,560	-	896,491	898,560	-
ABSA Bank- Bhobhoyi SUB-HSG - 9149475509	284,668	285,325	-	284,668	285,325	-
ABSA Bank- Bhobhoyi EST-HSG- 9149475753	12,648	12,993	-	12,648	12,993	-
ABSA Bank- Damaged houses - 9149475208	69,715	69,876	-	69,715	69,876	-
ABSA Bank- Uplands HSG - 9149401627	69,650	69,811	-	69,650	69,811	-
ABSA Bank- Mkholombe HSG- 9149401164	1,269,361	1,261,002	-	1,269,361	1,261,002	-
ABSA Bank- EPWP - 9286080526	-	461,185	-	-	461,185	-
ABSA Bank- AIDS Project- 9152775491	126,207	126,498	-	126,207	126,498	-
Standard Bank - Masinenge HSG- 89140/356988	28,602,159	28,194,329	-	28,602,159	28,194,329	-
Standard Bank - Kwamavundla HSG- 89139/356986	213,153	213,622	-	213,153	213,622	-
Standard Bank- KwaXolo Housing- 89141/356989	10,122,421	10,144,689	-	10,122,421	10,144,689	-
Standard Bank- KwaDwalane Housing- 90439/364623	458,640	459,642	-	458,640	459,642	-
Standard Bank- RNM Unspent conditional grants- 89111/56985	10,363,521	3,640,535	-	10,363,521	3,640,535	-
Standard Bank - RNM Accreditation Funds- 89111/357732	397,712	2,983,186	-	397,712	2,983,186	-
Investec Bank - MHOA (Housing Development Fund)-	12,799,011	9,351,779	-	12,799,011	9,351,779	-
Nedbank- RNM Primary Investment account - 03/7881000791/000035	-	188,503	-	-	188,503	-
Nedbank Provincialisation of library - 03/7165019529	-	67,101	-	-	67,101	-
Nedbank- MSIG- 03/7165019502/000001	-	150,564	-	-	150,564	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

12. Cash and cash equivalents (continued)

Nedbank - FMG- 03/716519510/000001	-	468,397	-	-	468,397	-
Nedbank- Community library services- 03/716502098/000001	-	8,073	-	-	8,073	-
First National Bank - MIG - 62200828955	-	130,695	-	-	130,695	-
First National Bank- conditional grant- 62200828533	-	4,558,809	-	-	4,558,809	-
First National Bank- Equitable share- 62536540059	-	543,851	-	-	543,851	-
First National Bank - Primary investment account- 62726614151	12,896,634	-	-	12,896,634	-	-
First National Bank - Petty cash account - 62730320091	214	-	-	214	-	-
Cash on hand	42,301	34,750	-	42,301	34,750	-
Total	**95,257,363**	**93,557,090**	**-**	**95,257,363**	**93,557,090**	**-**

13. Long-term loans

	2018	2017
At amortised cost		
Total long-term loans	21,159,026	28,440,874

Standard Bank of South Africa:

The municipality has a structured unsecured 20 year loan with Standard Bank. The loan is repayable in fixed semi-annual installments relating to capital and interest in October and April each year. Interest is incurred at a rate of 11.56% p.a.

Development Bank of Southern Africa:

The municipality took over a structured unsecured loan with the Development Bank as a result of a change in powers and functions of local municipalities. The loan is payable in variable semi-annual installments in December and June, over a period of 10-20 years. Interest on the loan is incurred at variable interest rates.

	2018	2017
Non-current liabilities		
At amortised cost	11,164,333	18,318,869
Current liabilities		
At amortised cost	9,994,693	10,122,005

14. Landfill site provision

The rehabilitation cost provision is for the closure costs of Outlands Landfill Site. Provision has been made based on the estimated present value of the future cash flows arising from the closure cost expected as at 30 June 2018.

The costs of rehabilitating the Landfill Site have been estimated by TGC Engineers. The estimate is based on the following:

1. Capping: The capping comprises a GCL covered by 600mm of soil and 200mm of topsoil. A passive gas extraction system comprising stone grains laid at 20m intervals below the capping has been allowed for.

2.The extent of the works covers cells 1 to 4. The cost of closing future cells will be added when they are opened.

Reconciliation of landfill site provision	2018	2017
Opening balance	34,169,042	30,331,817
Current year movement	923,640	3,837,225
	35,092,682	**34,169,042**

15. Long-service awards

The long service award is granted to municipal employees after the completion of fixed periods of continuous service with the municipality. The provision represents an estimation of the awards to which employees in the service of the municipality as at 30 June 2018 may become entitled to in the future. The provision is based on an actuarial valuation performed at that date. The most recent actuarial valuation was carried out at 30 June 2018 by One Pangae Financial, Fellow of the Faculty of Actuaries and Actuarial Society of South Africa. The present value of the obligation, and the related current service cost and past service cost were measured using the Projected Unit Credit Method.

The amounts recognised in the statement of financial position are as follows:	**2018**	**2017**
Non-current liabilities	16,183,000	15,230,000
Current liabilities	2,306,000	1,351,000
	18,489,000	**16,581,000**

Eligible employees	**2018**	**2017**
Number of eligible employees	1,110	1,161

Key assumptions used	**Percentage-2018**	**Percentage-2017**
Discount rate	8.81 %	8.55 %
Consumer Price Inflation	5.38 %	5.35 %
Salary increase rate	6.38 %	6.35 %
Net discount rate	2.28 %	2.07 %
	- %	**- %**

Age and mortality	**Years**	**Years**
Normal retirement age	65	65
Average retirement age	63	63
Mortality	85 - 90	85 - 90

	2018	**2017**
Present value of fund obligations	18,489,000	16,581,000

Amounts recognised in the statement of financial performance under employees costs are as follows:	**2018**	**2017**
Current service cost	1,395,000	1,381,000
Interest cost	1,360,000	1,278,000
Actuarial gain/loss	(504,000)	(437,000)
	2,251,000	**2,222,000**

The movement in the defined benefit obligation over the years is as follows:	**2018**	**2017**
Balance at the beginning of the year	16,581,000	15,588,000
Current service cost	1,395,000	1,381,000
Interest cost	1,360,000	1,278,000
Contributions paid	(1,744,474)	(2,103,000)
Actuarial gain/loss	897,474	437,000
	18,489,000	**16,581,000**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

16. Payables from exchange transactions

Trade payables	380,275	588,267
Other payables	34,678,732	24,500,345
Retentions	21,578,727	20,773,333
Accrued leave pay	22,007,673	21,014,556
Payments received in advance	35,663,488	32,973,397
Unknown direct deposits	11,574,334	8,382,680
Creditors Accruals	25,169,678	19,323,981
Accrued bonus	10,404,405	8,153,243
Operating lease	-	71,936
	161,457,312	**135,781,738**

17. Consumer deposits

Electricity	6,300,919	6,823,151
Building plans	15,832,954	16,102,986
Other	4,674,929	280,411
Hall deposits	63,869	40,312
	26,872,671	**23,246,860**

18. Service charges

Sale of electricity	109,948,397	106,140,049
Refuse removal	48,191,493	41,430,987
	158,139,890	**147,571,036**

19. Other income

Miscellaneous income	9,328,800	15,004,669
Technology Hub	20,141,101	20,101,405
	29,469,901	**35,106,074**

20. Investment revenue

Interest revenue		
Financial instruments at amortised cost	3,838,229	5,251,457

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

21. Property rates

Rates received

Residential	292,626,497	242,874,200
Commercial	73,393,455	50,480,190
State	17,248,973	1,813,890
Municipal	154,103	39,216,230
Small holdings and farms	-	9,285,769
Mining	-	125,139
Institutions	-	4,769,582
Agriculture	5,480,134	2,797,249
Industrial	12,435,812	-
PSI	5,809,207	-
Vacant land	34,077,487	-
ST garages/store rooms	605,653	-
Communal land	67,599	-
Public Benefit Organisations	900,427	-
Multi Purpose	2,457,317	-
Special purpose	483,482	262,493
Less adjustments	(3,394,666)	-
Less: Income forgone	(56,619,900)	(35,619,167)
	385,725,580	316,005,575
Property rates - penalties imposed	-	111,485
	385,725,580	**316,117,060**

Valuations

Residential	28,428,466,000	27,477,209,000
Commercial	4,157,613,000	2,820,196,000
Industrial	704,748,000	512,140,000
Mining	7,500,000	7,004,000
Agriculture	2,168,489,000	1,772,932,000
Special Purposes	95,333,000	54,514,000
PSI Properties	3,234,107,000	2,229,249,000
Municipal	547,867,000	455,837,500
Vacant land	1,604,284,000	1,934,958,000
Communal	65,822,000	134,736,000
Institutional	-	1,041,887,000
Public Benefit Organisation	365,378,000	59,875,000
Carport/garages	58,791,000	-
Multi-purpose properties	210,098,000	-
State	986,524,000	-
	42,635,020,000	**38,500,537,500**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The following rates randages were applicable in the financial period:.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

21. Property rates (continued)

Residential - 0.010273
Communal - 0.017465
Industrial - 0.17465
Mining - 0.020547
Agriculture - 0.002568
Special purpose - 0.005137
PSI - 0.002568
Vacant land - 0.020547
ST- Carports/garages - 0.010273
Communal - 0.001027
Public Benefit Organisations - 0.002568
State - 0.017465

Category of owner	**Rebate-2018**	**Rebate-2017**
Indigent persons	100%	100%
Child headed households	100%	100%
Retirement villages/old age homes/nursing homes	50%	
Schools (excluding PBO's)	50%	
Agriculture-Bona Fide Farmers only	60%	
Guest lodges/Houses and B&B's	10%	
Pensioner's rebate (maximum property value R1,5 Million)	200 000	
A pensioner/retiree or disabled person (with household income equal to 2 state pensions + R1)		75%
A pensioner/retiree or disabled person (with household income equal to 4 state pensions + R1)		50%
A pensioner/retiree or disabled person (with household income equal to 6 state pensions + R1)		25%

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Government grants and subsidies

Operating grants

Equitable share	175,566,000	145,299,000
GIS Enterprise Grant	1,300,000	-
Finance management Grant	3,600,000	3,561,945
Municipal Demarcation Transaction Grant	8,280,000	-
Museum Subsidy Grant	350,000	334,000
Entegrated National Electrification Programme Grant	14,000,000	10,680,948
Sports Maintenance Grant	600,000	324,998
EPWP Grant	3,306,000	2,660,000
Work Study Grant	683,088	-
Records Management Grant	200,000	-
LUMS Grant	388,042	176,390
Provincialisation of Libraries Grant	9,670,000	7,436,000
Community Library Service Grant	144,000	132,000
Cyber Cadet Grant	1,116,786	1,044,676
Municipal Infrastructure Grant	3,130,744	8,579,000
Disaster Management Grant	-	28,100
Municipal Systems Improvement Grant	-	22,801
Intermodal Facility Grant	-	2,665,580
Grant Income	-	128,330
Subsidy Income	-	88,877
LG Seta Grant	-	20,868
	222,334,660	**183,183,513**

Capital grants

Municipal Infrastructure Grant	59,484,137	76,618,135
Energy Efficiency and Demand Side Management Grant	4,000,000	-
	63,484,137	**76,618,135**
	285,818,797	**259,801,648**

Equitable Share

Current-year receipts	175,566,000	145,299,000
Conditions met - transferred to revenue	(175,566,000)	(145,299,000)
	-	**-**

Cyber Cadet Grant

Balance unspent at beginning of year	225,467	-
Current-year receipts	1,128,000	1,270,143
Conditions met - transferred to revenue	(1,116,786)	(1,044,676)
	236,681	**225,467**

Intermodal Facility Grant

Balance unspent at beginning of year	5,383,381	-
Current-year receipts	-	8,048,960
Conditions met - transferred to revenue	-	(2,665,579)
	5,383,381	**5,383,381**

Sports Maintenance Grant

Balance unspent at beginning of year	875,002	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Government grants and subsidies (continued)

Current-year receipts	-	1,200,000
Conditions met - transferred to revenue	(600,000)	(324,998)
	275,002	**875,002**

Work Study Grant

Balance unspent at beginning of year	700,000	-
Current-year receipts	-	700,000
Conditions met - transferred to revenue	(683,088)	-
	16,912	**700,000**

Records Management Grant

Balance unspent at beginning of year	200,000	-
Current-year receipts	-	200,000
Conditions met - transferred to revenue	(200,000)	-
	-	**200,000**

LUMS Grant

Balance unspent at beginning of year	1,000,000	-
Current-year receipts	-	1,176,390
Conditions met - transferred to revenue	(388,042)	(176,390)
	611,958	**1,000,000**

Energy Efficiency and Demand Side Management Grant

Current-year receipts	4,000,000	-
Conditions met - transferred to revenue	(4,000,000)	-
	-	**-**

Financial Management Grant

Current-year receipts	3,600,000	3,561,945
Conditions met - transferred to revenue	(3,600,000)	(3,561,945)
	-	**-**

Integrated National Electrification Programme Grant

Current-year receipts	14,000,000	10,680,948
Conditions met - transferred to revenue	(14,000,000)	(10,680,948)
	-	**-**

Municipal Demarcation Transition Grant

Current-year receipts	8,280,000	8,579,000
Conditions met - transferred to revenue	(8,280,000)	(8,579,000)
	-	**-**

Expanded Public Works Programme Grant

Current-year receipts	3,306,000	2,660,000

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Government grants and subsidies (continued)

Conditions met - transferred to revenue	(3,306,000)	(2,660,000)
	-	-

Municipal Infrastructure Grant

Current-year receipts	62,615,000	76,618,135
Conditions met - transferred to revenue	(62,615,000)	(76,618,135)
	-	-

Provincialisation of Libraries Grant

Current-year receipts	9,670,000	7,436,000
Conditions met - transferred to revenue	(9,670,000)	(7,436,000)
	-	-

Community Library Service Grant

Current-year receipts	144,000	132,000
Conditions met - transferred to revenue	(144,000)	(132,000)
	-	-

Museum Subsidy Grant

Current-year receipts	350,000	334,000
Conditions met - transferred to revenue	(350,000)	(334,000)
	-	-

GIS Enterprise Grant

Current-year receipts	1,300,000	-
Conditions met - transferred to revenue	(1,300,000)	-
	-	-

Grant Income

Current-year receipts	-	128,330
Conditions met - transferred to revenue	-	(128,330)
	-	-

Municipal Systems Improvement Grant

Current-year receipts	-	22,801
Conditions met - transferred to revenue	-	(22,801)
	-	-

Disaster Management Grant

Current-year receipts	-	28,100
Conditions met - transferred to revenue	-	(28,100)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Government grants and subsidies (continued)

Subsidy Income

Current-year receipts	-	88,877
Conditions met - transferred to revenue	-	(88,877)
	-	-

LG Seta Grant

Current-year receipts	-	20,868
Conditions met - transferred to revenue	-	(20,868)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

23. Employee related costs

Basic	217,232,191	183,078,193
Bonus	21,154,079	23,449,823
Medical aid - company contributions	16,191,752	54,479,403
UIF	1,887,969	-
Telephone allowance	721,226	-
Leave pay	3,532,331	-
Leave pay provision charge	993,117	-
Night shift allowance	730,298	-
Relief driver allowance	50,550	-
Defined benefit plan	4,066,000	3,985,000
Travel, motor car, accommodation, subsistence and other allowances	1,404,779	13,891,697
Overtime payments	18,128,016	16,299,792
Long-service awards	1,395,000	993,000
Acting allowances	909,154	-
Car allowance	12,128,743	-
Housing benefits and allowances	3,235,532	3,158,710
Bargaining Council Levy	110,045	-
Standby allowance	2,326,626	-
Pension fund	39,709,565	-
Life Insurance	207,410	-
Uniform allowances	90,000	-
Other employee related cost	-	9,962,908
Senior management	10,499,609	8,548,560
	356,703,992	**317,847,086**

Remuneration of municipal manager

Annual Remuneration	1,390,921	1,114,567
Subsistance and Travel	11,125	159,375
Performance bonuses	180,216	32,899
	1,582,262	**1,306,841**

Remuneration of chief finance officer

Annual Remuneration	1,228,464	1,027,254
Cellphone Allowance	12,000	12,000
Performance Bonuses	138,600	110,000
Subsistance and Travel	19,054	20,893
	1,398,118	**1,170,147**

Remuneration of Director Corporate Services

Annual Remuneration	1,160,569	963,249
Cellphone Allowance	12,000	12,000
Performance Bonuses	152,764	124,293
Subsistance and Travel	18,908	18,885
	1,344,241	**1,118,427**

Remuneration of Director Human Settlement and Infrastructure

Annual Remuneration	1,025,645	854,082
Cellphone Allowance	12,000	12,000
Performance Bonuses	86,788	55,104
Subsistance and Travel	11,613	8,410

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

23. Employee related costs (continued)

	1,136,046	**929,596**

Remuneration of Director Community Services

Annual Remuneration	965,960	468,581
Cellphone Allowance	12,000	7,200
Performance Bonuses	109,945	88,601
Subsistance and Travel	4,472	3,668
	1,092,377	**568,050**

Remuneration of Director Planning and Economic Development

Annual Remuneration	1,118,491	938,000
Cellphone Allowance	12,000	12,000
Performance Bonuses	115,677	120,184
Subsistance and Travel	54,158	100,372
	1,300,326	**1,170,556**

Remuneration of Director Strategic Planning and Governance

Annual Remuneration	1,177,847	959,063
Cellphone Allowance	12,000	12,000
Performance Bonuses	143,964	105,468
Subsistance and Travel	9,901	34,101
	1,343,712	**1,110,632**

Remuneration of Director Public Safety

Annual Remuneration	1,123,848	1,052,143
Cellphone Allowance	12,000	12,000
Performance Bonuses	147,226	110,168
Subsistance and Travel	19,453	-
	1,302,527	**1,174,311**

Employee cost that had been disclosed at a consolidated level in the previous year have since been broken down to the lowest transaction level in line with MSCOA requirements. It was not practiacl to restate the comparative figures for these accounts due to information not being available at the lowest transactional level in the prior year. This situation is unique to the current year because it is the first year of MSCAO implemenation.

24. Remuneration of councillors

Mayor	799,226	790,501
Deputy Mayor	647,058	634,048
Speaker	647,058	660,674
Executive Committee	6,126,862	5,534,653
Other councillors	17,733,834	14,424,043
	25,954,038	**22,043,919**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

24. Remuneration of councillors (continued)

In-kind benefits

The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council

The Mayor has use of a Council owned vehicle for official duties

The Mayor, Deputy Mayor and Speaker have full-time bodyguards.

25. Depreciation and amortisation

Non-current assets	85,578,632	68,473,089

26. Impairment of assets

Impairments		
Other asset 1	3,617,029	1,765,413
Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]		

27. Debt impairment

Debt impairment	14,650,846	129,509,601
Bad debts written off	7,732,182	-
	22,383,028	**129,509,601**

28. Bulk purchases

Electricity	87,168,139	75,593,791

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

29. Contracted services

Outsourced Services		
Administrative and Support Staff	5,043,240	768,651
Catering Services	789,033	-
Cleaning Services	5,794,211	13,307,006
Clearing and Grass Cutting Services	12,092,592	9,076,449
Litter Picking and Street Cleaning	-	5,084,023
Launching fees	-	90,477
Personnel and Labour	215,981	-
Refuse Removal	6,084,173	9,124,291
Researcher	1,742,691	-
Security Services	10,309,407	8,583,986
Swimming Supervision	9,902,598	8,489,959
Traffic Fines Management	3,917,724	-
Transport Services	1,855,574	-
Consultants and Professional Services		
Business and Advisory	10,250,320	13,871,212
Infrastructure and Planning	107,781	-
Laboratory Services	698,938	-
Legal Cost	2,650,187	-
Contractors		
Artists and Performers	32,750	-
Bottling and Packaging	-	5,381,323
Building	6,260,096	-
Catering Services	516,428	-
Electrical	505,413	-
Employee Wellness	-	558,460
Maintenance of Buildings and Facilities	1,014	-
Maintenance of Equipment	4,756,961	-
Maintenance of Unspecified Assets	51,975,585	36,050,608
Plants, Flowers and Other Decorations	-	1,736,031
Stage and Sound Crew	784,717	-
Shark Nets	613,414	6,892,289
	136,900,828	**119,014,765**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

30. General expenses

Advertising	2,127,497	565,920
Auditors remuneration	5,207,146	4,729,778
Bank charges	1,023,951	-
Commission paid	1,109,276	-
Computer expenses	-	1,045,025
Debt collection	-	1,703,414
Discount allowed	-	3,961,973
Entertainment	80,796	2,006,457
Fines and penalties	1,006,300	8,869,447
Gifts	148,099	1,449,353
Hire	5,790,422	3,051,425
Insurance	3,941,478	2,569,933
IT expenses	3,637,214	124,326
Ward committee	2,115,500	-
Levies	3,103,096	2,731,614
Magazines, books and periodicals	-	386,982
Housing	34,020,371	-
Pest control	-	2,807,831
Fuel and oil	15,828,835	6,206,901
Placement fees	-	956,450
Postage and courier	1,451,590	362,407
Printing and stationery	416,418	1,798,358
Promotions	-	27,150
Protective clothing and uniforms	2,652,602	7,990,994
Software expenses	-	783,773
EPWP	3,432,970	-
Subscriptions and membership fees	4,200,676	235,094
Telephone and fax	9,455,492	9,409,185
Transport and freight	-	314,957
Travel and accomodation	2,055,687	364,450
Toll fees	124,984	-
Utilities	23,461,906	13,655,894
Tourism development	-	125,877
Management fees	15,319,005	-
Consumables	6,443,930	2,220,583
Workmens Compensation	3,074,795	99,805
Bursaries and learnerships	682,964	-
Conferences	451,399	1,281,050
Sundry expenses	-	4,046,701
Project expenses	-	10,921,378
Indigent support	-	1,818,533
Storm water drainage	-	2,056,883
Other expenses	-	33,559,643
Chemicals and pesticides	-	809,616
Electricity infills	-	7,490,714
	152,364,399	**142,539,874**

General expenses that had been disclosed at a consolidated level in the previous year have since been broken down to the lowest transaction level in line with MSCOA requirements. It was not practiacl to restate the comparative figures for these accounts due to information not being available at the lowest transactional level in the prior year. This situation is unique to the current year because it is the first year of MSCAO implemenation.

31. Operating lease

At the reporting date, the entity has outstanding commitments under operating leases which fall due as follows:

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

31. Operating lease (continued)

Item	Within 1 year	Later than 1 year not later than 5 years	Later than 5 years	Total
Buildings	2,320,827	157,320	-	2,478,147
Equipment	447,639	336,516	-	784,155
Fleet	20,055,947	28,298,261	-	48,354,208
	22,824,413	**28,792,097**	**-**	**51,616,510**

32. Cash generated from operations

	2018	2017
Deficit	(31,794,109)	(27,826,448)
Adjustments for:		
Depreciation and amortisation	85,578,632	68,473,089
Fair value adjustments	49,095,096	-
Actuarial gains/losses	(6,267,018)	(6,471,750)
Impairment deficit	3,617,029	1,765,413
Debt impairment	22,383,028	129,509,601
Changes in working capital:		
Inventories	(1,234,885)	(3,296,773)
Sundry debtors	(2,901,829)	(36,984,226)
Receivables from exchange transactions	(8,672,161)	(48,501,881)
Receivables from non-exchange transactions	(24,434,033)	(149,234,640)
Payables from exchange transactions	22,830,785	135,781,738
VAT	(13,045,827)	(6,393,300)
Unspent conditional grants and receipts	(1,859,917)	26,475,236
Consumer deposits	3,625,811	23,246,860
Loan receivable	502,908	(7,837,134)
	97,423,510	**98,705,785**

Figures in Rand	2018	2017

33. Commitments

Authorised capital expenditure

Approved and contracted for:		
• Property, plant and equipment	50,250,733	55,330,835
Approved but not yet contracted for:		
• Property, plant and equipment	15,410,418	-
Total capital commitments		
Approved and contracted for	50,250,733	55,330,835
Approved but not yet contracted for	15,410,418	-
	65,661,151	**55,330,835**

Authorised operational expenditure

Approved and contracted for:		
• Operating commitments	5,077,239	20,736,425
Total operational commitments		
Approved and contracted for	5,077,239	20,736,425

Total commitments

Total commitments		
Authorised capital expenditure	65,661,151	55,330,835
Authorised operational expenditure	5,077,239	20,736,425
	70,738,390	**76,067,260**

This committed expenditure has been disclosed exclusive of VAT and will be financed by available retained surpluses, existing resources, internally generated funds and government grants.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

34. Contingencies

Contingent liabilities

Hume Housing (Quantum)		
Dispute relating to interpretations of court order	4,045,000	4,045,000
P C Blackie		
Loss of income claim	-	2,778,409
T R Audan		
Unlawful alienation of property	6,110	5,560
P T Naude		
Defenation of character claim	1,317,325	1,317,325
S Hlophe		
Damages to vehicle due to potholes	5,996	5,996
Bargaining Council		
Failure to comply with regulations	-	787,830
Thabimndeni Construction and Projects and Sika Engineering and Project Managers		
Breach of contract counter claim	63,242	63,242
Vox Telecommunications		
Unauthorised service fee claim	395,381	-
CD Mdlazi		
Verbal agreement	100,000	-
K Warricker		
Pothole damage claim	432,337	-
Taurus Garden Trading (Pty) Ltd		
Contractual dispute	6,975,113	-
WJ Van Zyl		
Damages claim	13,862	-
	13,354,366	**9,003,362**

Contingent assets

Thabimndeni Construction and Projects and Sika Engineering and Project Managers		
Breach of contract	-	2,156,211

35. Related parties

Relationships	
Ugu District Municipality	Inter governmental relations
Ugu South Coast Tourism	Inter governmental relations
Ugu South Coast Development Agency	Inter governmental relations
Key management personnel	Refer to employee related cost note
Councillors	Refer to remuneration of councillors note

Related party balances

Grants to related parties		
Ugu South Coast Development Agency	-	3,198,737
Ugu South Coast Tourism	2,638,188	1,784,000
Secondments from and to related parties		
From Ugu District Municipality	363,000	185,376
To Ugu District Municipality	356,552	374,993

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

36. Comparative figures

Certain comparative figures have been reclassified.

Due to the implementation of MSCOA, certain reclassifications have been made to the prior year's financial statements to enhance the comparability with the current periods financial statements. As a resut,certain line items as well as their respective notes have been amended.

The effects of the reclassification are as follows:

Assets		
Inventories		
Audited balance	-	3,366,924
Reclassified from payables from exchange transactions (Other payables)	-	(70,151)
	-	**3,296,773**

Receivables from non-exchange transactions		
Impairment of non-exchange transactions		
Reclassified from fines to each category of debt within non-exchange transactions		
Consumer debtors - Penalties	-	(1,378,396)
Consumer debtors - Other non-exchange receivables	-	(160,859)
	-	**(1,539,255)**

Receivables from non-exchabge transactions		
Sundry debtors reclassified from non-exchange transactions to stand alone balance on the face of the statement of financial position		
Adjustment to sundry debtors balance		
Audited balance	-	34,325,368
Reclassified from other payables	-	1,557,963
Reclassified to other payables	-	1,004,376
Reclassified from receivables from exchange transactions	-	96,520
	-	**36,984,227**

Vat receivable		
Audited balance	-	8,734,697
Reclassified from other payables	-	(2,567,836)
Prior period error-refer to note	-	226,439
	-	**6,393,300**

Receivables from exchange transactions		
Accrued interest income		
Audited balance	-	48,598,400
Reclassified to sundry debtors	-	(96,520)
	-	**48,501,880**

Liabilities		
Payables from exchange transactions		
Other payables		
Audited balance	-	20,439,268
Reclassified to consumer deposits	-	(320,724)
Reclassified to sundry debtors	-	1,557,963
Reclassified to unknown direct deposits	-	(33,327)
Reclassified to inventory	-	(70,151)
Reclassified to VAT	-	(2,567,836)

Notes to the Annual Financial Statements

Figures in Rand

36. Comparative figures (continued)

Reclassified from retentions	-	7,087,823
Reclassified to income received in advance	-	(2,597,047)
Reclassified from sundry debtors	-	1,004,376
	-	**24,500,345**

Payables from exchange transactions
Payments received in advance

Audited balance	-	30,376,350
Reclassified from other payables	-	2,597,047
	-	**32,973,397**

Payables from exchange transactions
Retentions

Audited balance	-	27,861,157
Reclassified to other payables	-	(7,087,823)
	-	**20,773,334**

Payables from exchange transactions
Uknown direct deposits

Audited balance	-	8,349,353
Reclassified from other payables	-	33,327
	-	**8,382,680**

37. Risk management

Financial risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by council.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

38. Events after the reporting date

There were no material non-adjusting events that came to the attention of management after the reporting date.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

39. Unauthorised expenditure

Community services	-	11,210,622

40. Fruitless and wasteful expenditure

Opening balance	141,426	-
Eskom - Interest	-	27,344
Auditor General - Interest	-	141,860
City of Choice Travel- cancelled accommodation	2,101	16,248
Telkom - Interest	-	304
Hamba Kahle - Fraud	-	482,061
G4S - Cash Collection	32,002	-
SARS - Fine relating to incorrect VAT claim	557,640	-
Dark or Blue Projects - Incorrect supplier paid	199,222	-
Less: Written off	-	(526,391)
	932,391	**141,426**

The following attempts have been made by the municipality to recover some of the fruitless and wasteful expenditure:

SARS - Fine relating to incorrect VAT claim: The municipality has lodged an objection against SARS for the R557 640 fine paid.

Dark or Blue Projects - Incorrect supplier paid: The municipality is in the process of attempting to recover the R199 222 paid to the incorrect supplier.

41. Irregular expenditure

Opening balance	36,879,712	20,773,047
Procurement process not followed	1,421,589	16,745,908
Less: Amounts written off	-	(639,243)
	38,301,301	**36,879,712**

Details of irregular expenditure – under investigation

Disciplinary steps taken/criminal proceedings:	Under investigation	35,923,087

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	3,877,795	3,055,225
Amount paid - current year	(3,877,795)	(3,055,225)
	-	**-**

Electricity losses

Amount paid - current year	4,755,130	10,133,685

The electricity losses in units are 5 177 591 (2017: 11 052 957) and the cost per unit is R0.92 (2017: R0.92). The electricity losses incurred in the current year amounted to 5.5% (2017: 11.5%) when compared to the total units purchased in the current year.

Figures in Rand	2018	2017

42. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Current year subscription / fee	4,956,677	4,660,134
Amount paid - current year	(4,956,677)	(4,660,134)
	-	-

PAYE and UIF

Current year subscription / fee	49,813,710	38,270,054
Amount paid - current year	(49,813,710)	(38,270,054)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	84,675,335	67,556,592
Amount paid - current year	(84,675,335)	(67,556,592)
	-	-

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	**Outstanding less than 90 days**	**Outstanding more than 90 days**	**Total**
Councillor S Breedt	1,005	4,577	5,582
Councillor S Chetty	3,314	667	3,981
Councillor A Damas	1,794	9,787	11,581
Councillor R Gumbi	1,413	44,773	46,186
Councillor B Ngalo	706	4,415	5,121
Councillor S Nkomo	607	2,692	3,299
Councillor V L Ntanza	1,885	37,287	39,172
	10,724	**104,198**	**114,922**

30 June 2017	**Outstanding less than 90 days**	**Outstanding more than 90 days**	**Total**
Councillor S Breedt	1,589	-	1,589
Councillor R Gumbi	2,273	39,906	42,179
Councillor S Nkomo	1,305	5,792	7,097
	5,167	**45,698**	**50,865**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

43. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Deviations in the period are detailed below:

Section 36 Deviations	**Award value**	**Award value**
In an emergency - s36(1)(a)(i)	1,049,094	243,497
Sole supplier - s36(1)(a)(ii)	-	13,556
Impractical or impossible to follow the official procurement process - s36(1)(a)(v)	3,027,429	2,731,719
	4,076,523	**2,988,772**

44. VAT receivable

Vat receivable		
VAT	19,439,129	6,393,300

The municipality accounts for VAT on a payment basis. The municipality is liable to account for VAT at the standard rate in tems of section 7(1)(a) of the VAT Act in respect of the supply of goods or services,except where the supplies are specifically zero-rated in terms section 11,exempted in terms of section 12 of the VAT Act or scoped out for VAT purposes.The municipality accounts for VAT on a monthly basis.

45. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Housing Development Fund	18,091,385	18,091,386
Cyber Cadet Grant	236,681	225,467
Intermodal Facility Grant	5,383,381	5,383,381
Sports Maintenance Grant	275,002	875,002
Work Study Grant	16,912	700,000
Records Management Grant	-	200,000
LUMS Grant	611,958	1,000,000
	24,615,319	**26,475,236**

46. Lease rentals on operating lease

Motor vehicles		
Contractual amounts	10,988,757	-
Equipment		
Contractual amounts	7,613,222	-
Plant and equipment		
Contractual amounts	478,048	-
Lease rentals on operating lease - Other		
Contractual amounts	18,542,269	23,005,882
	37,622,296	**23,005,882**

Lease rentals on opearting leases that had been disclosed at a consolidated level in the previous year have since been broken down to the lowest transaction level in line with MSCOA requirements. It was not practiacl to restate the comparative figures for these accounts due to information not being available at the lowest transactional level in the prior year. This situation is unique to the current year because it is the first year of MSCAO implemenation.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

47. Other revenue

Operational income	29,469,901	35,106,074

48. Finance costs

Employee benefit obligation	9,360,000	8,685,000
Long-service awards	1,360,000	1,278,000
Financial instruments at amortised cost	3,987,893	3,129,629
	14,707,893	**13,092,629**

49. Fair value adjustments

Investment property (Fair value model)	(49,095,096)	-

50. Change in estimate

Property,plant and equipment

The residual values, estimated useful lives and depreciation method of certain asset were reviewed as at 30 June 2018. Adjustments to the useful lives affect the amount of depreciation for the current year and is expected to affect future periods as well. The effect of this revision has decreased the depreciation charges for the current and future periods by R136 602.

51. Prior-year adjustments

Presented below are those items contained in the statement of financial performance that have been affected by prior-year adjustments:

Statement of financial performance

2017

	Note	As previously reported	Correction of error	Re-classification	Restated
Other Income		14,778,230	226,439	20,101,405	35,106,074
Technology Hub		20,101,405	-	(20,101,405)	-
Employee related costs		(324,169,755)	-	6,322,669	(317,847,086)
Lease rentals on operating leases		-	-	(23,005,882)	(23,005,882)
Finance cost		(3,129,629)	-	(9,963,000)	(13,092,629)
Debt impairment		(126,157,751)	-	(3,351,850)	(129,509,601)
Repairs and maintenance		(33,442,254)	-	33,442,254	-
Contracted services		(32,289,697)	-	(86,725,068)	(119,014,765)
General Expenses		(219,349,001)	-	76,809,127	(142,539,874)
Actuarial gain/loss		-	-	6,471,750	6,471,750
Depreciation and amortisation		59,944,536	8,528,553	-	68,473,089
Surplus for the year		**(643,713,916)**	**8,754,992**	**-**	**(634,958,924)**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

51. Prior-year adjustments (continued)

Errors

The following prior period errors adjustments occurred:

Vat receivable

Vat was incorrectly disclosed as an income item in the Statement of Financial Performance instead of the Vat receivable balance in the statement of Financial Position:

The correction of error resulted in the following adjustment:

Statement of Financial Position		
Vat receivable	-	226,439
Accumulated surplus	-	(226,439)
	-	**-**

Property, Plant and Equipment

During the current financial year, the municipality performed a complete verification and reconciliation of all municipal assets. To ensure completeness of Property, Plant and Equipment a full property reconciliation was performed. This resulted in a number of misstatements being identified and subsequently corrected.

The effects of the errors are as follows:

Statement of financial Position	**30 June 2017**	**09 August 2016**
Increase/(Decrease) in PPE	(938,733)	10,944,810

Statement of Financial Performance	**30 June 2017**	**09 August 2016**
Increase/(Decrease) depreciation	938,733	-

Statement of changes in Net Assets	**09 August 2016**
(Increase)/Decrease in Accumulated surplus	10,944,810

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

51. Prior-year adjustments (continued)

Change in accounting policy

The following change in accounting policies occurred:

Property, Plant and Equipment

During the financial period, the municipality changed its accounting policy for buildings from revaluation model to the cost model. This is deemed to be a more accurate and reliable method to value buildings as it takes into account the depreciation and condition assessment of assets on a yearly basis. Buildings that were valued using the fair value model were unbundled and split from the land parcels. This resulted in the following retrospective restatement:

The adjustment on land register due to:		
Unbundled buildings being split from the land parcels, additional properties added to register	41,017,709	-

The adjustment on buildings occured due to:		
Buildings being unbundled and valued using deemed cost per component	441,904,881	-
Depreciation change due to the unbundling and valuation of building components	(243,412,704)	7,589,820
	-	**-**

Statement of Financial Position		
Increase/(Decrease) in Property, Plant and Equipment	239,509,886	(7,589,820)

Statement of Financial Performance		
Increase/(Decrease) in Depreciation	-	7,589,820

Statement of Change in Net Assets		
(Increase)/Decrease in Accumulated surplus	239,509,886	-

52. Budget differences

Material differences between budget and actual amounts

Reasons for differences identified in the Statement of Comparison of Budget and Actual:
Service charges: Refuse was less than anticipated due to customers applying for indigent support. The current economic climate has also been a major reason for a decline in payments by customers.
Rental of facilities and equipment: Less events were held than anticipated.
Interest received-trading: Increase in interest due to increased outstanding debt.
Agency services: Less than anticipated.
Other Income: Revenue from town planning and building fees were less than anticipated.
Interest received - Investment : Interest earned on investments exceeded forecasted figure.
Property rates: New valuation roll will increase property values has been implemented.
Government grants and subsidies: Additional Income due to recognition of additional grant income.
Fines, penalities and forfeits: Material reduction in traffic fines levied.
Housing revenue: Grant income not originally budgeted for.
Employee related costs: Budgeted vacant posts not filled and some posts filled later in the year than anticipated.
Remuneration of councillors:
Depreciation and amortisation: Variances due to under estimation of depreciation and as a result of a change in accounting policy.
Finance cost: More than anticipated.
Lease renatals on operating lease: Budgeted for under general expenses but disclosed separately for AFS purposes.
Debt Impairment: savings due to no change in impairment of traffic fines.
Contracted services: More than anticiapted.
General expenses: Operating leases budgeted for under general expenses but disclosed separately for AFS purposes.